

a pertinent question. The convertibility of the Bank of England notes, he will observe, is guaranteed only partially by gold coin and bullion: a considerable portion of their security exists in the shape of a debt and investments. If, then, a crisis occurred of an exceptionally stringent and extensive nature, and the increase of the bank-rate failed sufficiently to arrest the drain of gold, the entire stock of gold might vanish, and yet a considerable liability under notes would remain and require to be discharged. The Government debt would, at such a period, form an idle entry for all practical uses; and the investments of the Bank would be unrealisable in cash, since the assumed condition of affairs would prevent their purchase in the market. The Bank then must become insolvent.

This state of impending disaster has occurred, and the remedy is the anomalous one of suspending (as it is termed) the Bank Act of 1844; in other words, the relief is afforded by the violation of the Act which was intended and expected to prove a permanent and unassailable national safeguard.

It will be remembered that under no circumstances can the Bank increase its issue of notes *against securities* beyond the limit which that Act prescribed; and a suspension means that the Bank is at liberty to disregard this restriction and to increase its circulation of notes to any extent that may be deemed expedient. Suspensions of the Act were allowed by the Government of the day during the crises of 1847, 1857 and 1866; and on each occasion the public apprehension at once subsided as soon as it became clear that notes could always be obtained.

The reader should not forget that an institution which becomes bankrupt may nevertheless be perfectly sound—the cause of disaster being the unwisdom of concentrating its funds too closely in investments which, in a condition of commercial strain, are incapable of being reduced into cash.

The fluctuations of the prices of securities, so far as the Beserve is concerned, will now be perceived. An adequate Beserve implies a low rate of interest for borrowed capital; and a low

rate of interest aids in raising the prices
of securities in two ways: (1) surpluses
that would at other times be